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July 17, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: WT Docket No. 97-82: Written Ex Parte Presentation
in Response to Northcoast Communications

Dear Ms. Salas:

In its July 12, 2000 *ex parte* presentation, Northcoast Communications argued that the Commission should set aside 20 MHz of all C-block licenses to be reauctioned, because it claimed that existing carriers have not built out the spectrum they own.

It is nothing short of amazing for Northcoast, a company which admits its own build out *has not even begun*, to criticize the pace of buildouts of other carriers. One would think that a company which has left its own spectrum completely idle for years would not be in a position to attack others who *are* serving the public.

Because Northcoast made no claims as to Verizon Wireless's buildout, we will leave it to those carriers who were attacked on this ground to respond. But we do feel compelled to address two fundamental flaws in Northcoast's presentation – one legal, the other factual.

Northcoast appears to believe that, as a legal matter, if existing carriers are not fully using all of their spectrum, the DE set aside should be retained. We fail to see the connection. The principal issue in this rulemaking is whether the FCC has a factual record to support "fencing off" any PCS spectrum from open bidding, and instead reserve it for only some parties who may be interested. To continue *any* set aside, the Commission must demonstrate that prohibiting certain parties from bidding achieves concrete goals, and that those goals cannot be achieved with less intrusive regulation that does not so severely distort the auction process.

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The legality of any DE set aside must be justified on that basis and that basis alone. If a carrier is not using all of its spectrum, or believes it has enough to serve its current and future customers, it will either not bid, or will not bid as highly as those who do need or want the spectrum. But that is no basis to exclude it from the auction altogether. The fact that some carriers might value additional spectrum less highly than others is no lawful or logical basis for absolutely prohibiting all non-DE carriers (those who believe they can use it as well as those who do not) from participating in the reauction.

Northcoast's argument that existing CMRS carriers are not efficiently using spectrum they already have because they continue to offer analog service is equally flawed. First, of course, this allegation is completely untrue as to existing PCS carriers, who have always been all-digital. In fact, Sprint PCS and other PCS carriers have already documented their need for more spectrum. That alone is sufficient to ignore Northcoast's argument.

But even if Northcoast had focused only on cellular, its argument is baseless. In asserting that cellular carriers can simply transition to analog, it omits to note that the FCC's rules *require* cellular carriers to offer analog service. *See, e.g.*, 47 C.F.R. § 22.901. What Northcoast asserts carriers should do is what they are not by law allowed to do.

Verizon Wireless is converting from analog to digital to the extent permitted by law and the demands of its customers. Northcoast's facile claim that we can simply "turn off" all analog reflects a serious misunderstanding of the way in which we and other carriers must respond to cellular regulation and the market.

For example, one of our predecessor businesses, Bell Atlantic Mobile ("BAM"), has over the past 18 months converted customers to digital at a pace of about 5-6% per quarter. We are at the forefront of the industry in establishing a complete digital network footprint. During the first quarter of 2000, 94% of the population of BAM cellular properties was covered by digital service; 98% of the New York City metropolitan population was covered by digital service; and 96% of the Washington, D.C./Baltimore metropolitan population was covered by digital service. It is precisely in these and other larger urban markets that we anticipate the greatest demand for additional spectrum.

Verizon is also aggressively marketing digital service. In the first quarter of 2000, for example, 75% of all new subscribers to BAM service signed up for digital service, and 66% of subscribers in the New York City metropolitan area were using digital service, triple the percentage from first quarter 1999. In response to this demand, Verizon continues to convert to digital carriers, and now has four digital carriers in New York, not three as Northcoast suggests.

In the same time period, 78% of the busy hour minutes of use on the BAM system were logged by digital subscribers, a figure that is steadily growing, and, for example, is now at 90% in New York. As these statistics indicate, networks have already been substantially converted to handling digital service.

Verizon is also committed to excellent customer service, and hence continues to provide some analog service offerings to meet the needs and demands of our customers. For example, offering a variety of both analog and digital service plans allows more opportunities for the public to tailor their use of wireless phones. Tiered service offerings accommodate the various economic needs of individual customers. Analog service offers lower initial startup costs helping to serve pre-paid customers and others who may not want post-paid service. Starting this summer, Verizon initiated digital pre-paid services.

The price differences between digital and analog handsets also has an impact on service plan selection. There are fewer digital handset vendors and digital handsets typically involve higher technology licensing fees, contributing to higher prices for digital handsets. Buying an analog phone is thus appealing to a base of new and existing subscribers that may not choose to purchase digital service plans or may intend to use the phone primarily for emergencies.

Moreover, cellular analog service is the only consistent nationwide wireless technology that allows roaming across all networks. Even "all digital PCS" operators utilize analog cellular systems to support roaming. Customers with TDMA handsets can only acquire roaming service in analog mode. In the event of a disaster, if a TDMA service provider network in our territory lost its network, its customers would have to use analog mode to make emergency calls on the Verizon network.

Verizon's spectrum needs are not solved by digital conversion. In projecting spectrum needs for the future, Verizon *has already taken into account* the fact that within a few years that the vast majority of its customers will be digital. But, the need for more spectrum is just not satisfied by converting all analog customers to digital immediately. The need for spectrum is more a function of the marketplace and is driven by such factors as the following:

Increases in customer penetration. At the end of 1999, it was estimated that close to 32% of the U.S. population had wireless service, or about 86 million people. Current projections are that by 2009 that figure will more than double. This tremendous increase will be fueled by demand from wireless internet and data and an ever increasing mobile lifestyle for voice.

Increases in airtime usage. Not only are the number of people using wireless services increasing but also each person is using more airtime. Today an average industry wireless user uses about 175 minutes a month (up from 100 just a few years ago). That number is expected to rise to over 450 minutes per month by 2009. This is an increase of over 250 percent. Thus combined with customer increases, total usage is projected to increase nearly 1400 percent by 2009.

Northcoast also claims that we can free up 10-15 MHz of spectrum by converting to digital. However, what Northcoast fails to mention is that the usage per customer on digital is almost three times greater than usage per customer on analog. We have found that switching to digital actually *increases* airtime. Therefore, roughly half of the spectrum we free up from the conversion is consumed by the increased usage per customer. The remainder of the freed-up spectrum is more than consumed by customer growth. Thus, a large part of the capacity gain that is realized when a customer is converted to digital is offset by the resulting higher usage.

Increases in use of spectrum intensive products and services. Another major factor in the need for more spectrum is that the new services for wireless data, including graphics and the internet, use more spectrum capacity than voice. Moreover, customers will be comparing wireless to a wired speed, and will want speeds close to wireline. Increasing transmission speeds also increases the need for spectrum.

In summary, the future of wireless is more than just providing voice service. CMRS carriers must plan for data services and increased demands for airtime from individual users. Our spectrum needs are based on those projections. Switching from analog to digital does allow some increase in capacity, but not nearly enough to meet the spectrum demand from factors such as increasing customer penetration, increasing airtime usage, and increasing products and service offerings.

The simple point is that any carrier's continuation of analog service is a product of its need to respond effectively to its customers, attract new customers, and meet FCC requirements. To argue, as Northcoast does, that it shows inefficient spectrum use is factually incorrect. To argue, as it also does, that this justifies a DE set aside to protect Northcoast from competition in the auction is sheer chutzpah.

Pursuant to Section 1.1206(b)(1) of the Commission's Rules, two copies of this letter have been submitted for inclusion in the above-referenced docket.

Very truly yours,

A handwritten signature in black ink that reads "John T. Scott". The signature is written in a cursive, slightly stylized font.

John T. Scott

cc: The Honorable William Kennard
The Honorable Harold Furchtgott-Roth
The Honorable Susan Ness
The Honorable Michael Powell
The Honorable Gloria Tristani
Christopher J. Wright
Thomas Sugrue
James D. Schlichting
Kathleen O'Brien Ham
Audrey Bashkin
Paul Murray